

# Residual Claims and Incentives in Restaurant Chains

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## *Abstract*

I examine the relationship between ownership and production activities using a new dataset of restaurant chains. Production in restaurant chains provides an opportunity to examine the effects of residual claims on incentives because production is decentralized and fairly uniform across restaurants in the same chain. Yet the allocation of residual claims varies between company-owned and franchised units, affecting the strength of incentives for restaurant-level activities. The decision to own or franchise each restaurant reflects the value of either withholding or allocating residual claims for performing these activities. I find that more complex production activities are systematically correlated with company ownership. Onsite food production raises the likelihood of company ownership by 28% relative to offsite food production. Table service raises the likelihood of company ownership by 26% relative to counter service. The results are not consistent with straightforward effort-promoting effects of residual claims in simple principal agent models. They are consistent with the view that residual claims can generate unbalanced incentives across diverse tasks.

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